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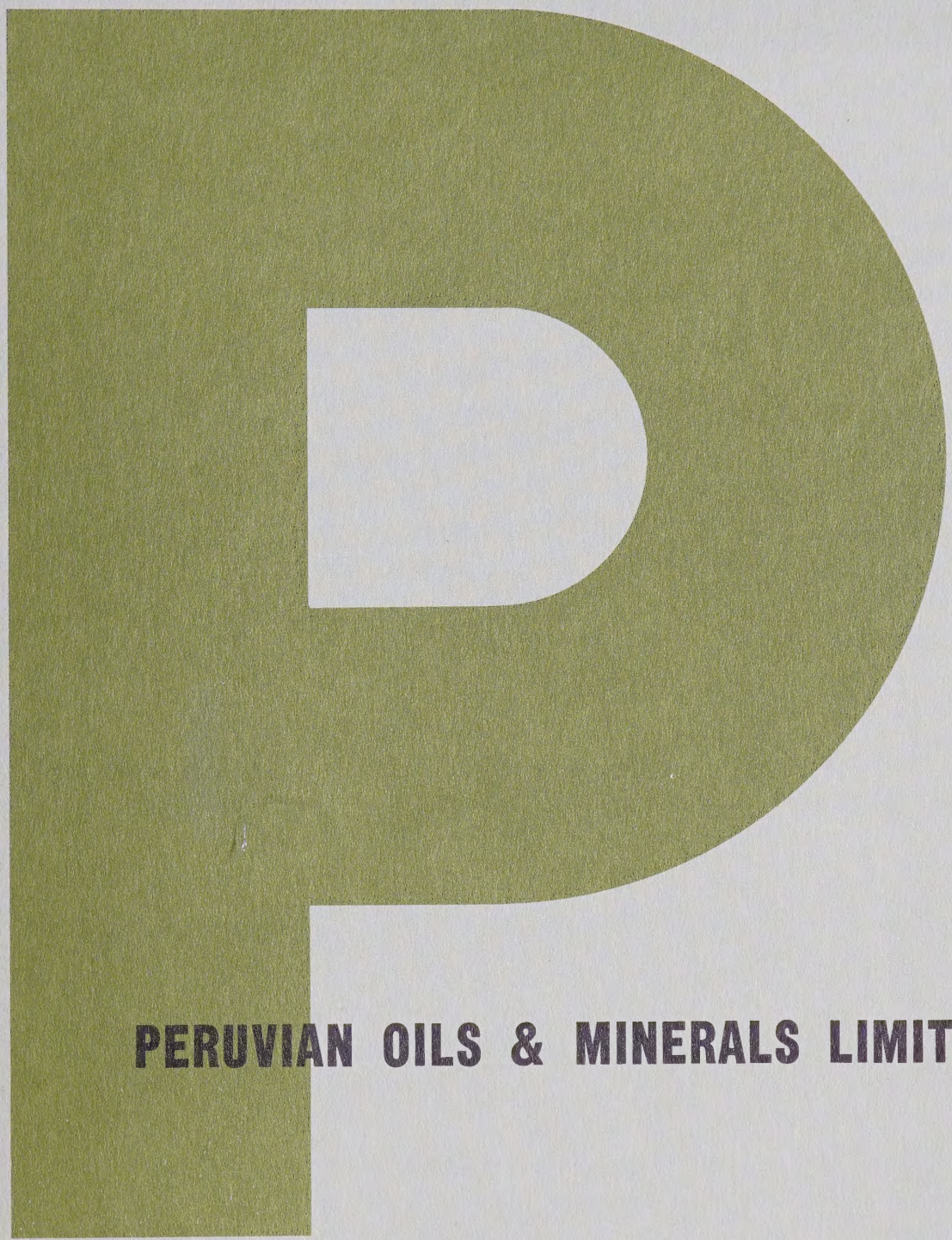

PERUVIAN OILS & MINERALS LIMITED

1965 ANNUAL REPORT

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PERUVIAN OILS & MINERALS, LIMITED

OFFICERS

J. J. RANKIN, President and Managing Director - Toronto, Ontario
R. L. SEGSWORTH, Vice-President - - - - Toronto, Ontario
J. S. GRANT, Q.C., Secretary - - - - - Toronto, Ontario
W. STEUERMAN, C.A., Treasurer - - - - Toronto, Ontario

DIRECTORS

A. LYNDON BELL - - - - - - - - Chautauqua, Illinois
JOHN S. GRANT - - - - - - - - - Toronto, Ontario
ALFRED E. MacKAY - - - - - - - - Chatham, Ontario
HARRY NAJARIAN - - - - - - Minneapolis, Minnesota
JOSEPH J. RANKIN - - - - - - - - Toronto, Ontario
ROBERT L. SEGSWORTH - - - - - - - Toronto, Ontario
RALPH C. TRAFICANTE - - - - - Minneapolis, Minnesota

TRANSFER AGENTS AND REGISTRARS

The Sterling Trusts Corporation, Toronto, Ontario
The Canadian Bank of Commerce Trust Company, New York, N.Y.

HEAD OFFICE

Suite 911 - 85 Richmond Street West, Toronto, Ontario

PERUVIAN OFFICE

Edificio Republica, Lima, Peru

BANKERS

Canadian Imperial Bank of Commerce - - - Toronto, Ontario
The Royal Bank of Canada - - - - - - Toronto, Ontario
Chase Manhattan Bank - - - - - - - New York, N.Y.
Republic National Bank of Dallas - - - - - Dallas, Texas

PERUVIAN OILS & MINERALS, LIMITED

Directors' Report

TO THE SHAREHOLDERS:

The fiscal year under review brought significant progress in exploration programs undertaken by your company.

A major success was achieved in Ohio where your company has participated in exploration in Clark Township in Holmes County. The Ruben S. Erb #1 well, with an initial potential of 2,100,000 cubic feet of gas per day, was drilled and completed in the latter part of the year. This is the deepest producing well in Ohio and the first commercial well to produce from the Rose Run Sand in Ohio, Kentucky or West Virginia. In addition, this well indicates that commercial production may also be obtained from the Berea, Clinton and Beekmantown formations.

Work on a second well in the area, scheduled for last December, was delayed due to land title problems but this hurdle has been overcome and drilling of the Paul Funk #1 well commenced late in April. Your company holds a 25% working interest in the completed well and in 30,000 acres of surrounding and adjoining land.

A pipeline is now being installed by the East Ohio Gas Company and has reached a point about two miles from the Ruben S. Erb #1 location. Your management is confident that deliveries to the line will commence before July 1st and that by year end will have reached a substantial rate.

As part of the same project, the Garber-Miller Unit #1 well designed to test a seismic structure in the Rose Run formation in Walnut Creek Township on the 10,000 acre block adjoining the Clark Township acreage was also spudded in in late April.

During the past year, your company participated in several seismic programs in Liberty, Monroe, Cardington and North Bloomfield Townships in Ohio and joined with other companies to the extent of varying interests in the drilling of three wildcat holes in Ohio, all of which were dry.

In southwestern Ontario your company is participating with Elgin Petroleum in the exploration of a geologically attractive structure. Drilling of the second hole in this play is to be started in the near future with our company holding a 25% interest in the venture. During 1965 three dry holes were drilled in another section of southwestern Ontario in which we had a 25% interest.

The recent announcement of a second major gas discovery in the North Sea, off the coast of Great Britain, where an intensive search by major oil companies is taking place, adds to the attractiveness

of the company's exploration venture in the North Sea. Your company owns 60% of the capital in Whiterock Oil and Gas Ltd., a U.K. company which holds a production licence on two blocks, covering an area of approximately 184 square miles, on which a seismic survey was carried out during 1965 by Whiterock. Reciprocal arrangements with neighbouring major companies on the exchange of seismic information has confirmed the presence of two structures on the company's licence blocks.

The company maintained its interest in the oil and gas concessions in Peru. Mobil Oil, with whom it has two farmout agreements, continues its program of exploration and evaluation. Substantial gas reserves are indicated on the Pachitea concession in which your company has retained a one-third carried interest and in the adjoining Aguaytia concession in which the company has a small working interest.

Further north, in the Santiago River district, an extensive seismic program was carried out by Mobil Oil on concessions in which your company has retained a 30% carried interest. Prospects of developing an oil field in the Santiago River area are considered good.

It is possible that both areas will be unitized with adjoining or adjacent lands before a major development program is undertaken. This would result in a reduced percentage for your company but in a larger area with added potential and covering the most favourable structures.

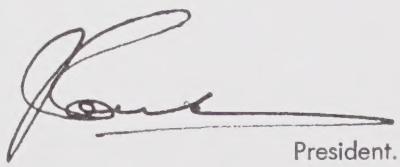
Your company participates to the extent of approximately 5% in a minerals exploration and development program in Peru financed jointly by several mining companies and also owns a 10% interest in Antipodes Explorations Limited, a company engaged in mineral and oil exploration work on an international scale.

A modest revenue continues to flow from the company's producing wells in the Pembina field of Alberta.

The operating loss before taxes for the year has decreased by $17,198 to $62,487 compared to the prior year. The net loss, after writing off exploratory and development expenses, amounts to $260,548, a decrease of $87,185 compared to 1964. The bulk of the exploratory expenses written off consists of concessions surrendered in Peru in the amount of $134,770 ($222,256 in 1964). All exploration concessions have now either been surrendered or converted into exploitation concessions.

It is the intention of your Directors to restrict the 1966 exploration and development costs to the gas development project already under way in Ohio and to limit this year's program in southwestern Ontario to the joint venture project.

On behalf of the Board,



President.

Toronto, Ontario,
April 28, 1966.

PERUVIAN OILS & MINERALS, LIMITED

(Incorporated under the laws of Ontario)

Balance Sheet as at

(with comparative figure

ASSETS

		1965	1964
Current:			
Cash and funds on deposit		$ 343,863	$ 507,947
Accounts receivable and accrued interest		56,111	24,196
Taxes recoverable		427	4,370
Advances — current portion (1965 U.S. $15,000, 1964 U.S. $56,250) (note 2)		16,125	60,399
Marketable securities at cost (market value 1964 $25,500)			24,784
Prepaid expenses		1,621	1,777
Total current assets		418,147	623,473
Property and equipment — at cost less accumulated depreciation and depletion (schedule 1)		636,532	704,568
Deferred exploratory and development costs		1,227,165	1,188,768
Other Assets:			
Deposits		6,065	6,065
Organization expenses		8,658	8,658
Advances (U.S. $118,750) (note 2)	$ 127,656		181,195
Less allowance for possible loss	127,655	1	(181,194)
Investment in Antipodes Explorations Limited — shares at cost		27,900	
Total other assets		42,624	14,724
		$2,324,468	$2,531,533

Auditors' Report

To the Shareholders of
Peruvian Oils & Minerals, Limited:

We have examined the balance sheet of Peruvian Oils & Minerals, Limited as at December 31, 1965 and the statements of operations, deficit and deferred exploratory and development costs for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of operations, deficit and deferred exploratory and development costs present fairly the financial position of the company at December 31, 1965 and the

PERUVIAN OILS & MINERALS, LIMITED

December 31, 1965

December 31, 1964)

LIABILITIES

	1965	1964
Current:		
Accounts payable and accrued liabilities	$ 129,219	$ 129,275
Shareholders' Equity:		
Capital —		
Authorized:		
5,000,000 shares par value $1.00 each		
Issued:		
2,931,671 shares including 470,000 shares issued for property	2,931,671	2,931,671
Less net discount	294,087	294,087
	2,637,584	2,637,584
Deficit	442,335	235,326
	2,195,249	2,402,258
	$2,324,468	$2,531,533

On behalf of the Board:

JOSEPH J. RANKIN, Director.

ROBERT L. SEGSWORTH, Director.

See accompanying notes

results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and applications of funds of the company for the year ended December 31, 1965.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Toronto, Canada,
April 4, 1966.

PERUVIAN OILS & MINERALS, LIMITED

Statement of Operations

For the Year Ended December 31, 1965

(with comparative figures for the year ended December 31, 1964)

		1965	1964
Income:			
Income from oil and gas production (schedule 2)		$ 23,866	$ 21,778
Interest income and sundry credits		19,285	18,718
Total income		43,151	40,496
General and Administrative Expenses:			
Remuneration of directors		15,000	9,700
Engineers' and geologists' fees		7,242	3,543
Accounting, office services and rent		15,000	15,000
Dallas office			6,493
Legal and audit		9,724	9,346
Transfer agency		22,731	36,492
Publicity		7,089	10,821
Travel		7,731	7,041
Reports to shareholders and meetings		9,636	9,230
Foreign exchange loss		7,286	6,631
Other		4,199	5,884
Total general and administrative expenses		105,638	120,181
Operating loss before taxes		62,487	79,685
Income taxes (recoverable)			(3,649)
Operating loss		62,487	76,036
Other charges:			
Exploratory and development costs written off			
Concessions surrendered — Peru	$ 134,770		
Dry wells and development — Ohio	27,614		
Other	35,677	198,061	271,697
Net loss after above charges		$ 260,548	$ 347,733

Statement of Deficit

Deficit (earned surplus) beginning of year	$ 235,326	$ (318,837)
Net loss for the year	260,548	347,733
Adjustment to provision for possible loss on advances	(53,539)	206,430
	207,009	554,163
Deficit end of year	$ 442,335	$ 235,326

See accompanying notes

Statement of Deferred Exploratory and Development Costs

For the Year Ended December 31, 1965

Balance, December 31, 1964			$1,188,768
Add Peruvian oil concession costs reclassified as development costs			26,436
			1,215,204
Exploratory and development expenses in Peru:			
Surface taxes and dues for Government Petroleum department services	50,046		
Tax on conversion to exploitation concessions	11,229		
Geological expenses	2,629		
Salaries and wages	16,900		
Legal and accounting fees	4,889		
Depreciation of furniture and fixtures	773		
Interest earned and sundry credits	(2,275)		
Foreign exchange adjustments	(4,108)		
Other development expenses	12,407	92,490	
Exploratory and development expenses in Ohio:			
Drilling	30,486		
Seismic survey expenses	7,218		
Other	3,773	41,477	
Exploratory and development expenses in Canada		26,642	
Joint venture explorations:			
In the United Kingdom (North Sea)	16,294		
In Canada (South Western Ontario)	23,904		
In Peru	13,060	53,258	
Total expenditure during year		213,867	
Deduct amortization for year —			
Ohio	737		
Alberta	3,108	3,845	
Net expenditure for year			210,022
			1,425,226
Less amount written off			198,061
Balance, December 31, 1965:			
Peru		1,012,716	
Ohio		38,315	
Canada (Alberta)		58,343	
United Kingdom		46,746	
Joint ventures		71,045	$1,227,165

See accompanying notes

PERUVIAN OILS & MINERALS, LIMITED

Statement of Source and Application of Funds

For The Year Ended December 31, 1965

Source of funds:		
Interest income and sundry credits		$ 19,285
Income from oil and gas production	23,866	
Add charges against income not involving an outlay of cash — Depreciation, depletion and amortization	51,169	75,035
Disposal of equipment — Alberta		132
Reduction in allowance for possible loss on advance (note 2)		53,539
Deposits recovered on surrender of concessions in Peru		2,767
		150,758
Application of funds:		
General and administrative expenses		105,638
Exploratory and development costs	213,867	
Less depreciation in Peru — not involving an outlay of cash	773	213,094
Loss on guarantee deposit bonds in Peru		1,313
Purchase of oil leases — Ohio		1,766
Purchase of equipment — Ohio		6,317
Purchase of shares in Antipodes Explorations Limited		27,900
		356,028
Decrease in funds — represented by the following reduction in working capital during the year:		
Working capital at December 31, 1964	494,198	
Working capital at December 31, 1965	288,928	$ 205,270

See accompanying notes

Notes to the Financial Statements

December 31, 1965

1. The financial statements are expressed in terms of Canadian currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are converted into Canadian funds on the following bases:

Current assets and current liabilities	At the closing rate of exchange prevailing at December 31.
Certain expenditures for oil concessions in Peru	At the exchange rates prevailing on the dates of payment to the Peruvian government.
Expenditures on equipment and deferred exploration and development	At the average rates of exchange for the years in which expenditures were made.
Revenues and expenses	At the average rates of exchange for the year, except that provisions for depreciation, depletion and amortization and exploration and development costs written off are at the rates prevailing when the relative expenditures were made.

2. The balance payable by Commercial Recording Corporation, U.S. $133,750, pursuant to a compromise settlement approved by a United States District Court in 1964, is payable at the rate of U.S. $5,000 per month. The payments received in 1966 prior to March 30, U.S. $15,000, have been shown as a current asset.

PERUVIAN OILS & MINERALS, LIMITED

SCHEDULE 1

Schedule of Property and Equipment

December 31, 1965

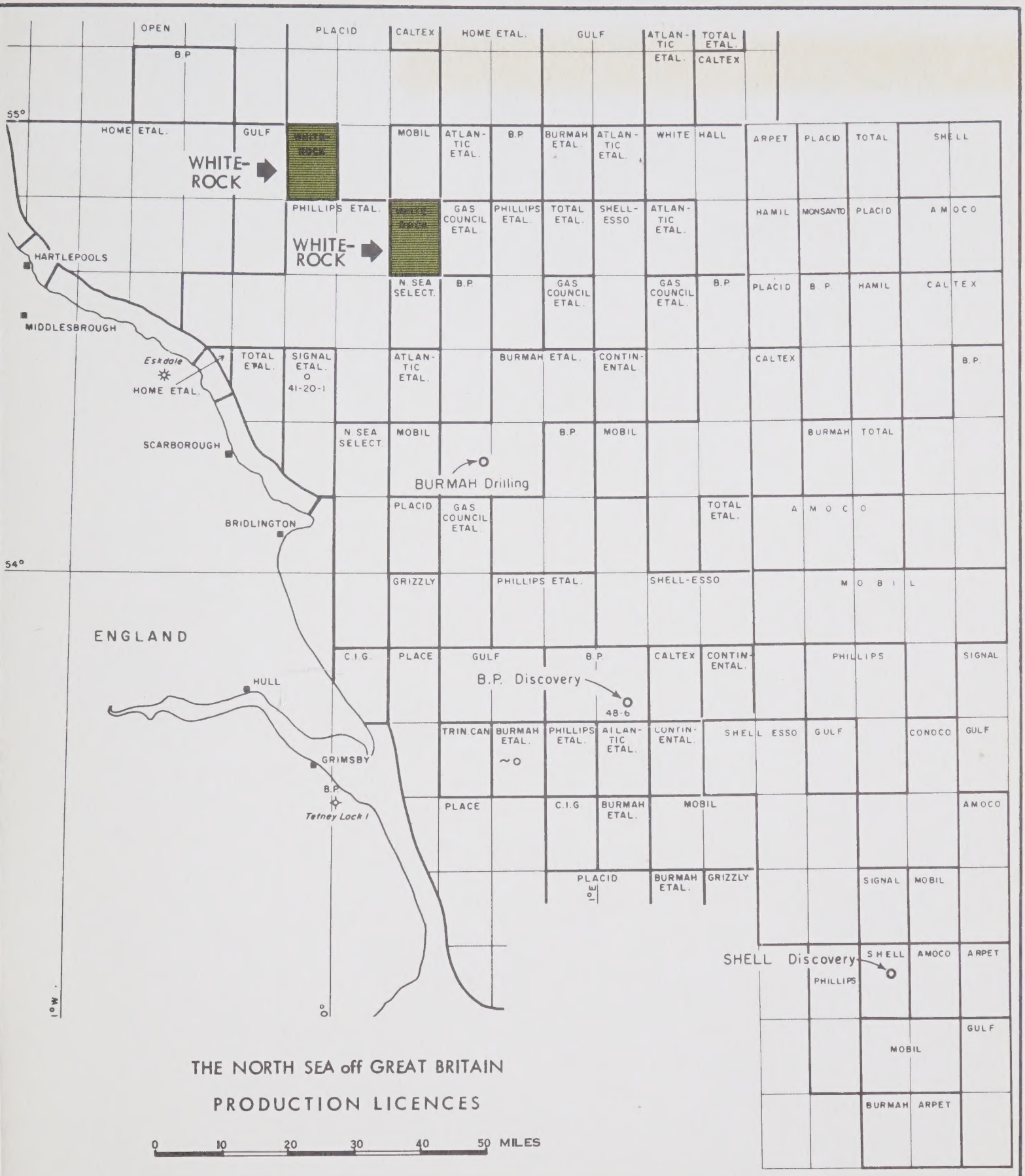
South America (Peru):		
Oil concessions —		
Deposits (net of refunds and recoveries)	$ 58,012	
Shares issued at par for commissions and services relating to investigations and negotiations for oil concessions	70,000	$ 128,012
Office furniture and fixtures — at cost	3,992	
Less accumulated depreciation	3,991	1
Total property in South America		128,013
Western Canada (Alberta):		
Oil Leases — at cost —		
Cash	64,469	
Shares issued at a premium of 25¢ each	500,000	
	564,469	
Less accumulated depletion	256,922	307,547
Machinery and equipment — at cost	137,330	
Less accumulated depreciation	53,158	84,172
Total property in Canada		391,719
United States (Ohio):		
Oil leases — at cost	112,072	
Less accumulated depletion	5,001	107,071
Machinery and equipment — at cost	12,238	
Less accumulated depreciation	2,509	9,729
Total property in the United States		116,800
Total property and equipment		$ 636,532

SCHEDULE 2

Schedule of Income from Oil and Gas Production

For the Year Ended December 31, 1965
(With comparative figures for the year ended December 31, 1964)

	1965	1964
Sale of crude oil and natural gas	$ 108,155	$ 102,666
Production Expenses:		
Operating expenses	18,795	21,792
Lease rental expenses	1,524	1,429
Field facility and gas collection expenses	8,459	5,849
Insurance and taxes	4,343	2,823
Depletion of oil leases	38,381	37,766
Amortization of development costs	3,845	3,346
Depreciation of machinery and equipment	8,942	7,883
Total production expenses	84,289	80,888
Income from oil and gas production	$ 23,866	$ 21,778



THE NORTH SEA off GREAT BRITAIN

PRODUCTION LICENCES

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